

Shardul Amarchand Mangaldas

India + Taiwan: How the Indo-Pacific Region can achieve supply chain resilience

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India: The next manufacturing hub

- Given the disruption in global supply chains due to Covid-19 pandemic, countries across the globe are considering diversification and de-risking strategies to move their manufacturing base / supply chains from China to other Asian countries, with India being one of the favorites.
- India ranks 3rd in the list of most-suitable locations for global manufacturing among 48 countries in terms of cost competitiveness and operating conditions, according to a Cushman & Wakefield Report in 2020.
- The technological and economic prowess of Taiwan coupled with India's established strengths in manufacturing, liberalized foreign exchange laws, experienced and active bureaucracy, its progressive, skilled and highly educated workforce and its large consumer base will further strengthen the enduring synergetic relationship between India and Taiwan.
- Several initiatives have been taken by the state governments in India towards adopting progressive policies for promoting industrial development and pushing India as a favourable destination for relocation / expansion.
- India is part of the Supply Chain Resilience Initiative with Japan and Australia which is likely to boost the supply chain resilience in the Indo-Pacific region and promote, expand and diversify trade and foreign investment in key sectors such as automobiles, chemicals, petrochemicals, drugs and pharmaceuticals, textiles, IT services etc.



India – Taiwan relations

- India and Taiwan have an established economic relationship since the past 25 years.
- FDI inflow from Taiwan has increased almost 10 times between FY 2018-19 to FY 2019-20 and the cumulative FDI inflow from Taiwan to India from April 2000 to December 2020 is approx. USD 402 million.
- India and Taiwan have signed several memoranda such as the MoU on Promotion of Industry Collaboration for strengthening ties in the fields of industry, investment and technical cooperation and the MoU between Indian Society of Manufacturers of Electric Vehicles and Taiwan's External Trade Development Council to develop electric vehicles.
- Taiwan Government's 'New Southbound Policy' is designed to attract the attention of Taiwanese companies to countries like India, Indonesia, Malaysia, the Philippines, Thailand, and Vietnam with a distinct focus on local population and technology.
- Indian Government's 'Act East Policy' provides a framework for greater engagement between India and Southeast Asia which also offers opportunities to Taiwanese companies.
- Integration of Taiwan's 'New Southbound Policy' and India's 'Act East Policy' will promote economic, strategic and diplomatic ties within the Asia-Pacific region and further strengthen India and Taiwan's economic relationship.



India – Taiwan investment relations

- Taiwanese corporations engaged in a plethora of businesses including information and communications technology, tyres, banking, construction, textiles, steel, agro-products, synthetic rubber etc. have a presence in India, for e.g. Delta Electronics, Mitac, Evergreen, CSRC, Fengtay, Maxxis, CDC, Wistron, Foxconn, Fair Friend Group, CTBC, and Kymco.
- Recently, Taiwan's Luxshare has announced that it will make electronic components and wearables in Tamil Nadu and will revive the defunct Motorola factory at an investment of USD 100 million.
- Tamil Nadu and Karnataka have set up Investment Facilitation Cells with a Taiwan Desk and representatives from Taiwanese trade bodies and companies, in order to attract investments from companies relocating from China and also intend to create a cluster of Taiwanese industries.
- India and Taiwan signed a landmark Bilateral Investment Agreement in 2018 to promote investment flow between India and Taiwan.



India's Role in the Asia – Pacific region

- India through its engagement in regional initiatives like SAARC and BIMSTEC and by engaging with ASEAN, Australia, Japan and the U.S. is increasingly expanding its role in the Asia – Pacific region.
- India is progressing from being an Indian Ocean powerhouse to a country which is embedded in the global supply chains of Asia – Pacific.
- In this regard, India with its large market, technical prowess and cheap labour can play an important role in the global supply chains of Asia – Pacific.

Initiatives by the Indian Government to emerge as a Manufacturing Hub



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- **Production linked incentive (PLI) scheme:** The Indian Government has implemented the PLI scheme which extends an incentive of 4-6% on incremental sales of goods manufactured in India to eligible companies, for a period of 5 years to boost investments in key sectors such as electronic and technology products, automobiles and components, telecom, pharmaceuticals, textiles, food products etc. Several Taiwanese companies have already applied to avail benefits under the PLI scheme and the PLI scheme is expected to contribute significantly towards achieving India's vision of being a USD 1 trillion digital economy and having a USD 5 trillion GDP by 2025.
- All major Apple suppliers (Foxconn, Rising Star, Wistron, Pegatron) have shifted to India under the PLI scheme with Foxconn aims to invest approx. USD 1 billion and Pegatron aims to invest approx. USD 150 million in India. Wistron has also announced that it would invest approx. USD 165 million to expand its existing plant near Bengaluru.
- **Centralized single window clearance:** The Indian Government is running the exercise of building a centralized single window system of clearances for investors and easing compliance requirements of the industry and moving towards a fully digital economy. This system is proposed to provide end-to-end facilitation support and is expected to better India's rank in ease of doing business and more importantly, provide investors with a one stop destination for all their needs.
- **Liberalization of foreign direct investment:** The Indian Government has liberalized the caps for foreign investment in various sectors such as contract manufacturing, defence and insurance.
- **Reduction in Corporate Tax Rate:** With the base corporate tax rate coming down to 15% from 22% in case of new investments in the manufacturing sector, India now has one of the lowest corporate tax rates globally.

Initiatives by the Indian Government to emerge as a Manufacturing Hub



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- **Industrial townships:** India has created incentives for Taiwanese manufacturing companies to set up their plants in SEZs, National Investment and Manufacturing Zones and EOUs. Karnataka has offered support in setting up a Taiwanese industrial township. Tamil Nadu has a large cluster of Taiwanese companies and is looking for further investments. Currently, three Taiwan Electronic Manufacturing Clusters (TEMCs) have been established in Greater Noida IT Park (Noida, UP), Devanahalli IT Park (Bangalore, Karnataka), and Sri City (Nellore, Andhra Pradesh).
- **Trade Expo:** The Bureau of Foreign Trade, India and Taiwan External Trade Development Council (TAITRA) organized the third edition of 'Taiwan Expo' virtually in December, 2020. The Expo hosted over 650 meetings to connect 270 companies including 150 from India and 120 from Taiwan to explore future business opportunities.
- **Taiwan-Plus:** Taiwan Plus is the one-stop-shop for Taiwanese companies for exploring and materializing plans to set up companies in India and aims to promote, facilitate and retain Taiwanese investments in India.



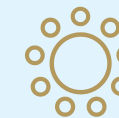
Taiwan's contribution in the development of supply chains

- Today, as a tertiary economy, Taiwan ranks number one in patent activity and number ten in economic innovation in addition to being a world-leading semiconductor supplier and a technology giant that accounts for 90% of the world's laptops (manufactured through five Taiwanese firms). Services constitute over 60% of Taiwan's GDP.
- By the transfer of technology and funds, Taiwan has played an important role in promoting the countries receiving investments from it to garner a greater role in global supply chains.
- As per United Nations Conference on Trade and Development's World Investment Report 2020, the cumulative outward FDI from Taiwan is USD 362 billion up till 2019. Even if 10% of this amount is spent in India, it can lead to strengthening of the global supply chains and the rapid development of India – Taiwan relations.

Scope for India – Taiwan Partnership to help in Global Supply Chain Resilience

- Taiwan can position itself favorably in the next few years to leverage India's digital revolution and growing demand for high-tech products to manufacture some goods in India and gain market share for its firms and help the Taiwanese government jumpstart its 2016 Asian Silicon Valley Development Plan, which aims to promote innovation related to the internet of things and Taiwanese entrepreneurialism.

India: An Attractive Investment Destination for Taiwan compared to its peers



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Parameter	China	Thailand	Vietnam	Indonesia	Myanmar	Malaysia	India
Ease of Doing Business	31	21	70	72	165	12	63
Corporate Governance Watch (Asia)	10	6	-	12	-	4	7
Intellectual Property Protection	49	64	83	65	-	32	55
Transparency of Government Policy-making	82	83	82	51	136	23	50
Corruption Perceptions Index	80	101	96	85	130	51	80

** The above figures are taken from the World Bank's Ease of Doing Business Report, 2020*

The rankings in the aforementioned table have not taken into account the recent reforms undertaken by the Indian government. Basis the above, it can be seen that India has fared comparatively well in relation to its neighbours, when it comes to the above parameters. Particularly in relation to its Ease of Doing Business rankings, India has made consistent reforms over the past few years. As per the World Bank's Doing Business - 2020 report, out of 190 economies, India ranks 27th in dealing with construction permits, 22nd in getting electricity, 25th in getting credit, and 80th in trading across borders. These remarkable rankings have been made possible due to the proactive reforms carried out by the Indian government in relation to the above parameters, amongst others. The Indian government is also fairly transparent in its policy-making, also evidenced by the table above.

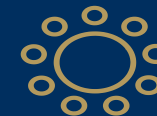
The reforms introduced by the Indian government in the past few months, particularly in light of the Covid-19 pandemic, are expected to further cement India's reputation in being an investor friendly destination, and also result in the betterment of India's global rankings.

India and Taiwan Relations: Strengthening Global Supply Chains



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- The trade ministers of Australia, Japan and India agreed to develop SCRI for the Indo-Pacific region. The three countries recognized the pressing need for regional cooperation on supply chain resilience in the Indo-Pacific and agreed on achieving this resilience through cooperation and by calling on other like minded countries to join the initiative. SCRI is aimed towards attracting investments and protecting global trade from regional and global shocks and India – Taiwan ties can be utilised for taking this initiative further.
- A report issued in August, 2020 by global consultancy McKinsey & Co titled “Risk, resilience, and rebalancing in global value chains”, indicated that under the threats of trade disputes, cyberattacks, pandemics and a number of climate-related events, companies in the next 3 to 5 years might move production of a quarter of global goods to new countries.
- Based on McKinsey’s estimate of how much global trade could relocate, 16- 26% of global exports, including pharmaceuticals, apparel, communication equipment and petroleum products worth USD 2.9 trillion to USD 4.6 trillion (as of 2018) could be in play.
- Keeping the market potential aside, the cheap labour cost in India, as compared to its peers, is an important focus point for Taiwanese investors.
- India and Taiwan can nurture and strengthen a closer partnership based on relocating manufacturing capacity to India which is likely to result in job creation, an expansion of labor talent, industry growth, technology transfers, and the sharing of Taiwan’s small and medium-enterprise development experience along with supply chain resilience. Such collaboration could help boost Taiwan’s high-end manufacturing and R&D (through the cultivation of high-tech industries in India and South Asia) and allow reciprocal gains for Taiwan by virtue of the vast potential of India’s immense market.



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THANK YOU

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